

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

OSRECOVERY, INC., et al.,

Plaintiffs,

v.

ONE GROUPE INTERNATIONAL, INC., et al.,

Defendants.

02-CIV-8993 (LAK)

## REPLY AFFIRMATION OF ALEC SAUCHIK

**ALEC SAUCHIK**, declare as follows:

1. I am an attorney duly admitted to practice before this Court and am a member of the firm of Verner Simon, P.C., attorneys for defendant Parex Bank (“Parex Bank”) in this action. I submit this Affirmation in reply to Plaintiffs’ Opposition to Parex Bank’s Cross-Motion to Dismiss the Second Amended Complaint.

2. Attached hereto as Exhibit “A” are true and correct copies of the September 25, 2003, Stipulation and Order extending Parex Bank’s time to answer or otherwise move with respect to the Second Amended Complaint, and four letters to Hon. Lewis A. Kaplan related to same.

3. Attached hereto as Exhibit “B” are excerpts from Parex Bank’s 2002 Annual Report.

4. Attached hereto as Exhibit “C” is a printout from Parex Bank’s website detailing its correspondent banking relationships worldwide.

Alec Sauchik  
ALEC SAUCHIK (AS-5002)

**EXHIBIT "A"**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

----- X  
OSRECOVERY, INC., et al.,

Plaintiffs,

v.

ONE GROUPE INTERNATIONAL, INC., et al.,

Defendants.  
----- X

SEP 26 2003

02-CV-8993 (Kaplan, J.)

**STIPULATION AND ORDER**

IT IS HEREBY STIPULATED AND AGREED by and between the undersigned attorneys for Plaintiff OSRecovery, Inc. and the John Doe Plaintiffs (collectively, "Plaintiffs"), and Defendant Parex Bank, as follows:

1. That the time for Plaintiffs to apply to the Court for leave to amend the Second Amended Complaint for Injunctive and Other Relief (the "Second Amended Complaint"), with respect to Parex Bank, and file a Third Amended Complaint for Injunctive and Other Relief ("Application for Leave to Amend"), herein be and hereby is extended to and including October 15, 2003, notwithstanding that Defendant Parex Bank does not waive any objections to Plaintiffs' Application for Leave to Amend; and
2. That the time for Defendant Parex Bank to answer and/or otherwise move with respect to the Second Amended Complaint, or the Third Amended Complaint should the Court grant Plaintiffs' Application for Leave to Amend, whichever the case may be, herein be and hereby is extended to and including twenty (20) days following the Court's ruling on Plaintiffs' Application for Leave to Amend; and
3. That the time for Plaintiffs to oppose any pleading and/or motion filed by Defendant Parex Bank with respect to the Second Amended Complaint, or the Third Amended Complaint should the Court grant Plaintiffs' Application for Leave to Amend, whichever the case

may be, herein be and hereby is extended to and including twenty (20) days following Defendant Parex Bank's filing of any such pleading and/or motion; and

4. That the time for Defendant Parex Bank to reply with respect to any such pleading and/or response filed by Plaintiffs in opposition to a motion by Defendant Parex Bank with respect to the Second Amended Complaint, or the Third Amended Complaint should the Court grant Plaintiffs' Application for Leave to Amend, whichever the case may be, herein be and hereby is extended to and including twenty (20) days following Plaintiffs' filing of any such opposition.

Dated: New York, New York  
September 25, 2003

**LEBOEUF, LAMB, GREENE &  
MACRAE, L.L.P.**

By: 

Wayne C. Matus (WM 5642)  
125 West 55th Street  
New York, NY 10019  
(212) 424-8000

Attorneys for Plaintiffs

**VERNER SIMON, P.C.**

By: 

Paul Verner (PV 0274)  
The Herald Square Building  
1350 Broadway  
New York, NY 10118  
(212) 502-5500

Attorneys for Defendant Parex Bank

**SO ORDERED:**

---

Hon. Lewis A. Kaplan

LEBOEUF, LAMB, GREENE & MACRAE

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November 20, 2003

**BY FEDERAL EXPRESS**

Honorable Lewis A. Kaplan  
United States District Judge  
Southern District of New York  
Daniel Patrick Moynihan United States Courthouse  
500 Pearl Street  
New York, N.Y. 10007

Re: *OSRecovery, Inc., et al. v. OneGroupe International, Inc., et al.*  
(02 CV 8993) (LAK)

Dear Judge Kaplan:

We represent Plaintiffs OSRecovery, Inc. and the John Doe Plaintiffs (collectively, "Plaintiffs") in the above-referenced action. We write with reference to Defendant Parex Bank's Cross-Motion to Dismiss the Second Amended Complaint for Injunctive and Other Relief Against Parex Bank, dated November 10, 2003 ("Cross-Motion to Dismiss"). Defendant Parex Bank's Cross-Motion to Dismiss is contrary to the stipulated dealings of the parties, and is wholly inconsistent with judicial economy.<sup>1</sup> Accordingly, Plaintiffs respectfully request that the Cross-Motion to Dismiss be stricken or, in the alternative, held in abeyance pending the Court's decision on Plaintiffs' Motion for Leave to Amend the Second Amended Complaint, dated October 15, 2003 ("Motion for Leave to Amend").

Parex Bank's Cross-Motion to Dismiss betrays its stated intent surrounding the parties' stipulated pleading schedules: to put Parex Bank's strongest challenge forward against Plaintiffs' strongest pleading. See Affidavit of A. John P. Mancini in Support of Plaintiffs' Motion for Leave to Amend the Second Amended Complaint, dated October 15, 2003 ("Mancini

<sup>1</sup> Plaintiffs hereby expressly reserve their right to challenge the substantive arguments made by Parex Bank in its Cross-Motion to Dismiss. Plaintiffs, likewise, reserve their right to pursue remedies available, *inter alia*, under Rule 11 of the Federal Rules of Civil Procedure, with respect to the frivolous nature of that part of the Cross-Motion to Dismiss that argues this Court lacks *in personam* jurisdiction over Parex Bank.

Honorable Lewis A. Kaplan  
 November 20, 2003  
 Page 2

Affid."), ¶ 5. Plaintiffs and Parex Bank stipulated that, in the interests of preserving the Court's and the parties' resources, Parex Bank would challenge the applicable pleading after the Court's anticipated ruling on Plaintiffs' Motion for Leave to Amend.<sup>2</sup> See Stipulation and Order, so ordered September 30, 2003, annexed hereto at Attachment 1; see also Mancini Affid. at Exhibits B and C. Instead, Parex Bank interposed its Cross-Motion to Dismiss against a pleading that it knew could be superceded in a matter of days.

Simply put, Parex Bank's Cross-Motion to Dismiss is premature and an affront to judicial economy. Parex Bank had abundant notice of Plaintiffs' intention to file for leave to amend, and waited nearly three weeks after Plaintiffs' Motion for Leave to Amend was filed to interpose its Cross-Motion to Dismiss – to say nothing of the many months that have passed since Parex Bank was served with the Second Amended Complaint. For Parex Bank to seek dismissal of the Second Amended Complaint now is wholly inconsistent with judicial economy and merely serves to tax unnecessarily the Court's and the parties' resources, and as such, it would be unjust to require Plaintiffs to respond to the Cross-Motion to Dismiss at this time. See *Banco de Desarrollo Agropecuario, S.A. v. Gibbs*, 116 F.R.D. 548, 548 (S.D.N.Y. 1987) ("[i]n the interests of fairness, efficiency and judicial economy, the Court determined to hold the motion to dismiss in abeyance pending the outcome of the instant motion [to amend]"); see also *Robinson v. Goord*, No. 9:01-CV-1934 (DNH/GLS); 2003 U.S. Dist. LEXIS 3457, \*4 (N.D.N.Y. March 11, 2003) ("in an effort to promote justice and judicial economy, this court recommends denying the defendants' motion to dismiss since it seeks to dismiss a complaint which has now been superceded").

Accordingly, Plaintiffs respectfully request that the Court enter an Order (i) striking Parex Bank's Cross-Motion to Dismiss; or (ii) in the alternative, holding Parex Bank's Cross-Motion to Dismiss in abeyance pending the Court's decision on Plaintiffs' Motion for Leave to Amend. See *Greenwald v. Orb Communications & Marketing, Inc.*, No. 00 Civ. 1939 (LTS); 2003 U.S. Dist. LEXIS 2792, \*7 (S.D.N.Y. Feb. 26, 2003) ("Defendants' motion to dismiss is denied as moot, without prejudice to renewal in relation to the amended complaint").

Respectfully submitted,

/s/ A John P. Mancini

A. John P. Mancini

Attachment

cc: Paul W. Verner, Esq. (By facsimile)  
 Chaim A. Levin, Esq. (By facsimile)  
 Lawrence W. Newman, Esq. (By facsimile)  
 Edward F. Westfield, Esq. (By facsimile)

<sup>2</sup> This understanding was reached following months of extensions granted by Plaintiffs to Parex Bank of its deadline to respond to the complaint, in order to foster and advance settlement negotiations. During that time, Plaintiffs purposefully did not seek leave to amend, to the knowledge of Parex Bank, in aid of those settlement negotiations.

**VERNER SIMON, P.C.**

Irvin F. Simon (Retired)

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REPLY TO NEW YORK OFFICE

November 20, 2003

**BY FEDERAL EXPRESS**

Honorable Lewis A. Kaplan  
United States District Judge  
Southern District of New York  
Daniel Patrick Moynihan United States Courthouse  
500 Pearl Street, Rm. 1310  
New York, New York 10007

Re: OSRecovery, Inc., et al., v. One Groupe International, Inc., et al.  
(02-CV-8993) (LAK)

Dear Judge Kaplan,

We represent Defendant Parex Bank in the above-referenced action. This letter responds to OSRecovery's counsel's request that Parex Bank's Cross-Motion to Dismiss the Second Amended Complaint be stayed or held "in abeyance" while OSRecovery's Motion for Leave to Amend is pending.

In only two months that we have been counsel to Parex, one thing is clear to us—Plaintiffs' counsel threatens or invokes Rule 11 sanctions at every turn—even when clearly unwarranted. This tactic, which is contrary to my previous experience with the law firm of LeBoeuf, Lamb, Greene & MacRae, LLP, is simply misplaced, oppressive and /or designed to coerce. We hope that the Court agrees that Plaintiffs' counsel should spend more time addressing the legal and factual arguments on their merits rather than abusively threatening sanctions through obscure footnotes. We reaffirm our position that the pleadings in this action, which prior to Parex's Cross-Motion to dismiss, have been amended three times, are clearly subject to dismissal based upon, *inter alia*, lack of personal jurisdiction.

We agree that the Cross-Motion to Dismiss should be the second motion to be heard, following a hearing on the Motion for Leave to Amend. The arguments on both motions, particularly as to futility, are overlapping and judicial economy actually warrants a single oral argument. Therefore, the Court should not strike or "hold in abeyance" the Cross-Motion to Dismiss. Logically, if the Court

**VERNER SIMON, P.C.**

Honorable Lewis A. Kaplan  
November 20, 2003  
Page 2 of 2

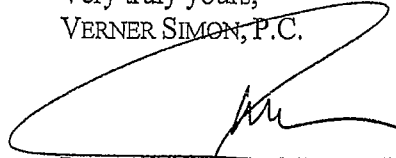
immediately agrees that the Motion for Leave to Amend should be denied due to its obvious futility, we expect it would turn its attention to the Cross-Motion to Dismiss the extant Complaint.<sup>1</sup>

Plaintiffs' counsel's grievance that the Cross-Motion to Dismiss was filed contrary to the stipulated intent of the parties is also misplaced. At no time did Parex waive its right to move against the existing pleadings in this case. The parties' previous stipulations extending Parex's time to answer or move against the pleadings were based, in part, on Plaintiffs' representations that they were in the process of conducting investigations into Parex's role (if any) into the alleged fraud. Having spent ten months since their last amendment, Plaintiffs were only able to amend their pleadings again in a few insignificant respects. The latest proposed amendment relies upon misstatements of facts as fully explained in Parex's opposition to the Motion for Leave to Amend. Despite being put on notice that the proposed amendments were futile, Plaintiffs proceeded to amend their Second Amended Complaint anyway. Moreover, even if the allegations against Parex in the Third Amended Complaint were true, which they are not, the Third Amended Complaint still falls woefully short of establishing *prima facie* support for exercising personal jurisdiction over Parex in this district, and does nothing to cure the glaring legal deficiencies of the claims against Parex in the Second Amended Complaint.

Therefore, Parex respectfully requests that the Court deny Plaintiff's request to strike Parex's Cross-Motion to Dismiss or to hold it "in abeyance". While briefing might be extended, a single hearing and argument is simply the best manner of handling the motions.

We appreciate the Court's consideration.

Very truly yours,  
VERNER SIMON, P.C.



PAUL W. VERNER (PV-0274)

cc: A. John P. Mancini, Esq. (By facsimile)  
Lawrence W. Newman, Esq. (By facsimile)  
Edward F. Westfield, Esq. (By facsimile)  
Chaim A. Levin, Esq. (By facsimile)

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<sup>1</sup> It would have been more prudent for the Plaintiff's counsel to telephone my office with a simple request to set up a sequenced briefing schedule on the Cross-Motion to Dismiss before addressing this Court and threatening sanctions motions.



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November 24, 2003

**BY HAND**

Honorable Lewis A. Kaplan  
United States District Judge  
Southern District of New York  
Daniel Patrick Moynihan United States Courthouse  
500 Pearl Street  
New York, N.Y. 10007

Re: *OSRecovery, Inc., et al. v. OneGroupe International, Inc., et al.*  
(02 CV 8992) (LAK)

Dear Judge Kaplan:

As Your Honor is aware, we represent Plaintiffs OSRecovery, Inc. and the John Doe Plaintiffs (collectively, "Plaintiffs") in the above referenced matter. We write in response to counsel for Parex Bank's letter to Your Honor, dated November 20, 2003.

First, Plaintiffs do not contend that Parex Bank has waived its right to file a Motion to Dismiss the Second Amended Complaint. Waiver is not the issue. The issue is one of breach. By filing its Motion to Dismiss in the matter that it did, Parex Bank breached the terms of the Stipulation and Order. The terms of the Stipulation and Order are clear, Parex Bank would have the opportunity to challenge the applicable pleading after the Court's decision on Plaintiffs' Motion for Leave to Amend. *See* Stipulation and Order, so ordered on September 30, 2003.

Second, it would be a waste of the Court's and the parties' resources to have extensive briefing and a hearing on a motion to dismiss a complaint that potentially will be superseded if the Court grants Plaintiffs' Motion for Leave to Amend. The timing of Parex Bank's motion not only breaches the parties' stipulation, but also serves to cause Plaintiffs to expend monies to defend a motion that may become moot and waste judicial resources. The Court should not tolerate such egregious conduct, and accordingly, we respectfully request that

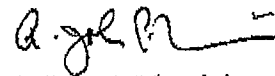
Honorable Lewis A. Kaplan  
November 24, 2003  
Page 2

the Court either strike Parex Bank's motion, or hold it in abeyance pending the Court's decision on Plaintiffs' Motion.

Finally, Parex Bank's motion insofar as it seeks dismissal of Plaintiffs' complaint based on lack of personal jurisdiction is sanctionable because: (1) Parex Bank was a plaintiff in a New York action and requested relief; (2) Parex Bank engages in significant banking activity in New York through its three corresponding banks; (3) Parex Bank does business in New York through its website; and (4) Parex Bank has hired a New York attorney who acts as its agent in New York. The facts relevant to this issue will be presented in detail at an appropriate time, however, we thought it necessary to inform the Court the reasons why it is our position that Parex Bank's motion based on lack of personal jurisdiction is both frivolous and sanctionable.

Thank you for Your Honor's attention to this matter.

Respectfully submitted,



A. John P. Mancini

cc: Paul W. Verner, Esq. (By facsimile)  
Chaim A. Levin, Esq. (By facsimile)  
Lawrence W. Newman, Esq. (By facsimile)  
Edward F. Westfield, Esq. (By facsimile)

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REPLY TO NEW YORK OFFICE

November 24, 2003

**BY HAND**

Honorable Lewis A. Kaplan  
United States District Judge  
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500 Pearl Street, Rm. 1310  
New York, New York 10007

Re: OSRecovery, Inc., et al., v. One Groupe International, Inc., et al.  
(02-CV-8993) (LAK)

Dear Judge Kaplan:

This is our final short reply to Plaintiffs' request to strike Parex Bank's Cross-Motion to Dismiss.

There is no breach of Stipulations by Parex Bank. The subject Stipulations (copies attached) merely established Parex Bank's outside time in which to move to dismiss the Second Amended Complaint or a Third Amended Complaint *if* leave to so amend was granted to Plaintiffs by this Court, which it should not be. There is no prohibition against Parex Bank's filing its Motion to Dismiss early, and the stipulation affords ample time for opposition thereto. If additional time is required, Plaintiffs need merely ask for an extension.

In opposing the Plaintiff's most recent request for leave to amend pleadings, Parex Bank has argued futility in a short brief which specifically referenced and incorporated its Cross-Motion's Memorandum of Law seeking dismissal. In short, the futility of the proposed Third Amended Complaint is inextricably intertwined with those reasons why the Second Amended Complaint (and any offspring) currently fails to state a cause of action against Parex Bank.

We doubt that Plaintiffs' counsel will muster a cogent response to the following excerpt from the opposition Brief without the Cross-Motion being on the docket, even if it is only to be determined after a denial of the Plaintiffs' Motion for Leave to Amend:

This Court should deny Plaintiffs leave to amend the third amended complaint because of the futility of the amendments to cure the deficiencies of the causes of action lodged against Parex Bank. As more fully explained in the attached Memorandum of Law in

**VERNER SIMON, P.C.**

Honorable Lewis A. Kaplan  
November 24, 2003  
Page 2 of 2

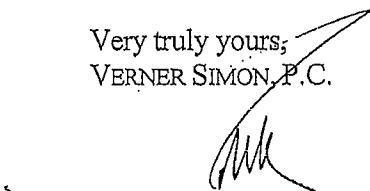
Support of Parex Bank's Cross-Motion to Dismiss, which Parex Bank intends to file with this Court shortly, all counts against Parex Bank are subject to dismissal. *The proposed amendments will not cure the deficiencies in the pleadings heretofore filed.*

Opposition Brief at p. 7 (emphasis added)

Finally, we suppose that Parex Bank could have addressed each reason for dismissal (futility) in its Opposition to the Plaintiffs' Motion for Leave to Amend, however, that truly would be a waste of judicial resources as it would require the Court and counsel to brief the same issues twice. Plaintiffs' counsel is not really concerned about judicial resources but simply seeks to strip from your docket the meat of Parex's argument against the Plaintiff's proposed Third Amended Complaint.

Plaintiffs' request to strike is really an effort to avoid the merits on the motions. This request should be denied for the reasons set forth above and because Plaintiffs' counsel has already replied in short form to Parex's Cross-Motion to Dismiss on the issue of personal jurisdiction. *See* Plaintiffs' letter today, last paragraph. There again, Plaintiffs' attorneys throw down the gauntlet of "sanctions" when they do not follow proper procedure, and, more importantly, are simply wrong. Thank you.

Very truly yours,  
VERNER SIMON, P.C.



PAUL W. VERNER (PV-0274)

cc: A. John P. Mancini, Esq. (By facsimile)  
Lawrence W. Newman, Esq. (By facsimile)  
Edward F. Westfield, Esq. (By facsimile)  
Chaim A. Levin, Esq. (By facsimile)

**EXHIBIT “B”**

**BALANCE SHEETS AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2002 AND 2001**

LVL 000's		31/12/2002		31/12/2001	
	Notes	Group	Bank	Group	Bank
<b>Assets</b>					
Cash and deposits with the Bank of Latvia	12	42,081	40,325	33,683	32,385
Balances due from credit institutions	13	158,922	176,244	70,976	69,783
Loans and advances to non-banking customers	14,15,16	359,061	334,945	270,547	258,843
Treasury bills and other fixed income securities	17,18	337,205	320,184	249,106	248,118
Shares and other non-fixed income securities	19	17,644	17,212	18,398	18,357
Investments in subsidiaries	20	-	5,320	-	4,014
Derivatives	30	957	948	917	917
Intangible assets	21	2,895	2,713	1,321	1,113
Fixed assets	22	21,579	16,481	20,332	16,506
Prepayments and accrued income	23	5,371	5,255	4,585	4,431
Other assets	24	5,999	3,272	3,854	2,524
<b>Total assets</b>		<b>951,714</b>	<b>922,899</b>	<b>673,719</b>	<b>656,991</b>
<b>Liabilities</b>					
Balances due to credit institutions and the Bank of Latvia	25	71,953	67,479	57,162	59,040
Deposits from the public	26	796,557	775,704	549,007	533,465
Derivatives	30	1,607	1,432	549	547
Accrued expense and deferred income		2,022	1,781	1,739	1,610
Provision for liabilities and charges	27	1,479	1,277	1,080	896
Other liabilities	28	5,833	3,533	5,694	3,065
<b>Total liabilities</b>		<b>879,451</b>	<b>851,206</b>	<b>615,231</b>	<b>598,623</b>
Minority interest		570	-	358	-
<b>Shareholders' equity</b>					
Paid-in share capital	29	50,000	50,000	30,000	30,000
Fair value revaluation reserve		3,782	3,782	(238)	(238)
Retained earnings		17,911	17,911	28,368	28,606
<b>Total shareholders' equity</b>		<b>71,693</b>	<b>71,693</b>	<b>58,130</b>	<b>58,368</b>
<b>Total liabilities and shareholders' equity</b>		<b>951,714</b>	<b>922,899</b>	<b>673,719</b>	<b>656,991</b>
<b>Memorandum items</b>					
Contingent liabilities	30	9,886	9,480	8,299	8,272
Financial commitments	30	61,961	60,763	30,189	30,957
Foreign exchange contracts	30	300,901	296,379	198,795	209,248
Other financial instruments	30	27,369	27,369	3,913	3,913
Funds under trust management	31	4,918	3,588	4,601	4,601

The financial statements on pages 35 to 78 have been approved by the Management of the Bank and signed on their behalf by:



**Valery Kargin**  
President, Chairman of the Board



**Viktor Krasovitsky**  
Chairman of the Council of Directors



**Gints Poišs**  
Chairman of the Council

Riga, 28 February 2003

*The accompanying notes are an integral part of these financial statements.*

# STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

Changes in the Bank's shareholders' equity may be specified as follows:

<b>LVL 000's</b>	<b>Paid-in share capital</b>	<b>Fair value revaluation reserve</b>	<b>Retained earnings</b>	<b>Total shareholders' equity</b>
Balance as at 1 January 2001	30,000	121	17,854	47,975
Paid out dividends	—	—	(1,000)	(1,000)
Fair value revaluation reserve charged to statement of income	—	(447)	—	(447)
Change in fair value of available for sale securities	—	88	—	88
Net profit for the year	—	—	11,752	11,752
<b>Balance as at 31 December 2001</b>	<b>30,000</b>	<b>(238)</b>	<b>28,606</b>	<b>58,368</b>
Increase in paid-in share capital	20,000	—	(20,000)	—
Fair value revaluation reserve charged to statement of income	—	(2,750)	—	(2,750)
Change in fair value of available for sale securities	—	6,770	—	6,770
Net profit for the year	—	—	9,305	9,305
<b>Balance as at 31 December 2002</b>	<b>50,000</b>	<b>3,782</b>	<b>17,911</b>	<b>71,693</b>

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

LVL 000's	Notes	2002		2001	
		Group	Bank	Group	Bank
<b>Cash inflow from operating activities</b>					
Profit before taxation and minority interest		12,010	11,545	13,378	13,285
Amortisation of intangible assets, depreciation of fixed assets and their write-offs		5,132	4,523	4,003	3,612
Loss from sale of fixed assets		30	30	18	18
Increase in provision for possible credit losses		5,836	5,455	2,897	2,638
(Profit)/loss from revaluation of foreign currency positions		(890)	(765)	445	384
(Profit)/loss from revaluation of long-term investments		–	(822)	–	1,094
Increase in provision for liabilities and charges		110	91	38	12
Minority interest		15	–	(265)	–
<b>Increase in cash and cash equivalents before changes in assets and liabilities</b>		<b>22,243</b>	<b>20,057</b>	<b>20,514</b>	<b>21,043</b>
(Increase)/decrease in prepayments and accrued income		(1,082)	(1,119)	2,104	2,045
(Increase)/decrease in other assets and derivatives		(1,027)	374	(1,657)	(1,287)
Increase/(decrease) in accrued expense and deferred income		283	171	(976)	(851)
Increase in other liabilities and derivatives		1,197	1,353	1,375	1,678
(Increase) in short-term investments		(34,847)	(28,091)	(2,596)	(9,261)
(Increase)/decrease in balances due from credit institutions		(74,020)	(91,974)	38,027	36,516
(Increase) in loans and advances to non-banking customers		(92,726)	(79,924)	(54,893)	(54,381)
Increase/(decrease) in balances due to credit institutions		(1,796)	(2,491)	10,311	21,011
Increase in deposits from the public		247,550	242,239	101,329	91,352
<b>Increase in cash and cash equivalents from operating activities before corporate income tax</b>		<b>65,775</b>	<b>60,595</b>	<b>113,538</b>	<b>107,865</b>
Corporate income tax		(3,182)	(3,156)	(2,158)	(2,150)
<b>Net cash and cash equivalents from operating activities</b>		<b>62,593</b>	<b>57,439</b>	<b>111,380</b>	<b>105,715</b>
<b>Cash (outflow) from investing activities</b>					
(Purchase) of intangible and fixed assets		(7,983)	(6,128)	(9,647)	(7,294)
(Purchase) of equity investments in other entities and other long-term investments including investments available for sale, net		(50,000)	(40,816)	(89,966)	(87,476)
<b>(Decrease) in cash and cash equivalents from investing activities</b>		<b>(57,983)</b>	<b>(46,944)</b>	<b>(99,613)</b>	<b>(94,770)</b>
<b>Cash (outflow) from financing activities</b>					
Dividend (payment)		–	–	(1,000)	(1,000)
(Decrease) in cash and cash equivalents from financing activities		–	–	(1,000)	(1,000)
<b>Net cash inflow for the year</b>		<b>4,610</b>	<b>10,495</b>	<b>10,767</b>	<b>9,945</b>
<b>Cash and cash equivalents at the beginning of the year</b>	32	<b>62,467</b>	<b>60,416</b>	<b>52,145</b>	<b>50,855</b>
Profit/(loss) from revaluation of foreign currency positions		890	765	(445)	(384)
<b>Cash and cash equivalents at the end of the year</b>	32	<b>67,967</b>	<b>71,676</b>	<b>62,467</b>	<b>60,416</b>

The accompanying notes are an integral part of these financial statements.



**INTEREST INCOME AND EXPENSE** **4**

LVL 000's 2001	2002		2001	
	Group	Bank	Group	Bank
<b>Interest income:</b>				
- interest on balances due from credit institutions	2,060	2,248	2,487	2,534
- interest on loans and advances to non-banking customers	22,976	21,108	24,460	22,722
- interest on treasury bills and other fixed income securities	15,598	15,080	14,005	13,793
<b>Total interest income</b>	<b>40,634</b>	<b>38,436</b>	<b>40,952</b>	<b>39,049</b>
<b>Interest expense:</b>				
- interest on balances due to credit institutions	(1,967)	(1,778)	(3,384)	(3,019)
- interest on deposits from the public	(15,377)	(14,943)	(15,956)	(15,622)
<b>Total interest expense</b>	<b>(17,344)</b>	<b>(16,721)</b>	<b>(19,340)</b>	<b>(18,641)</b>
<b>Net interest income</b>	<b>23,290</b>	<b>21,715</b>	<b>21,612</b>	<b>20,408</b>

**COMMISSION AND FEE INCOME AND EXPENSE** **5**

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
<b>Commission and fee income:</b>				
- payment transfer fee	7,655	7,234	6,474	6,326
- transactions with payment cards	5,948	5,693	5,009	4,905
- review of loan applications and collateral evaluation	1,382	1,263	933	831
- cash disbursement/transaction commission	1,037	903	941	868
- service fee for account maintenance	768	791	1,357	1,268
- customs brokerage	526	-	540	-
- securities	481	459	553	553
- letters of credit and guarantees	354	354	521	521
- cash collection	115	103	86	86
<b>Total commission and fee income</b>	<b>18,266</b>	<b>16,800</b>	<b>16,414</b>	<b>15,358</b>
<b>Commission and fee expense:</b>				
- fees related to payment card operations	(2,015)	(1,873)	(1,740)	(1,684)
- fees related to correspondent accounts	(1,413)	(1,402)	(962)	(934)
- brokerage and custodian fees	(441)	(440)	(1,388)	(1,388)
<b>Total commission and fee expense</b>	<b>(3,869)</b>	<b>(3,715)</b>	<b>(4,090)</b>	<b>(4,006)</b>
<b>Net commission and fee income</b>	<b>14,397</b>	<b>13,085</b>	<b>12,324</b>	<b>11,352</b>

## 6 PROFIT ON TRADING WITH FINANCIAL INSTRUMENTS, NET

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Profit from trading and revaluation of securities held for trading purposes	4,939	4,916	1,922	1,922
Profit from disposal of available for sale securities	3,209	2,750	2,918	2,827
Profit from foreign exchange trading and revaluation of open positions	4,822	2,777	4,979	4,661
Profit/(loss) from trading and revaluation of other financial instruments	(821)	(829)	377	377
<b>Profit on trading with financial instruments, net</b>	<b>12,149</b>	<b>9,614</b>	<b>10,196</b>	<b>9,787</b>

## 7 OTHER OPERATING INCOME

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Penalties received	1,410	1,377	695	695
Dividends received	55	55	96	96
Safety boxes rental income	41	41	59	51
Other income	474	167	416	127
<b>Total other operating income</b>	<b>1,980</b>	<b>1,640</b>	<b>1,266</b>	<b>969</b>

## 8 ADMINISTRATIVE EXPENSE

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Personnel expense	14,781	12,704	12,010	10,481
Travel and representation	2,898	2,861	1,986	1,983
Advertising, marketing and sponsorship	2,889	2,761	2,928	2,865
Repairs and maintenance	2,181	2,059	2,035	2,001
Communications (telephone, telex, mail)	1,694	1,482	1,529	1,360
Car maintenance	782	733	642	617
Rent for premises	981	685	1,099	768
Consulting and professional fees	933	675	1,092	922
Security	321	267	299	254
Taxes	401	109	429	102
Insurance	101	40	141	42
Other administrative expense	672	486	818	439
<b>Total administrative expense</b>	<b>28,634</b>	<b>24,862</b>	<b>25,008</b>	<b>21,834</b>

**PERSONNEL EXPENSE** **9**

Personnel expense includes remuneration for work to the personnel and related social security contributions and other benefits costs. The President and the Chairman of the Council of Directors of the Bank have not received any remuneration in respect to their employment.

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Remuneration for work	12,054	10,392	9,749	8,567
Social security contributions	2,727	2,312	2,261	1,914
<b>Total personnel expense</b>	<b>14,781</b>	<b>12,704</b>	<b>12,010</b>	<b>10,481</b>

Members of the Council and Board do not receive any remuneration in connection with their work in the Council and Board, respectively. The total remuneration paid by the Bank in respect of other positions held by the above individuals with the Bank amounted to LVL 71 thousand for the year ended 31 December 2002.

Personnel expense has been presented in these financial statements within administrative expense.

During the year ended 31 December 2002, the average number of personnel employed by the Bank and the Group was 1,471 (1,285) and 1,785 (1,574), respectively.

**PROVISION EXPENSE FOR POSSIBLE CREDIT LOSSES AND  
RELEASE OF PREVIOUSLY ESTABLISHED PROVISION** **10**

An analysis of the change in provision for possible credit losses is presented as follows:

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Specific provision at the beginning of the year	11,448	11,003	10,338	9,732
General provision at the beginning of the year	2,215	2,175	2,340	2,293
<b>Total provision at the beginning of the year</b>	<b>13,663</b>	<b>13,178</b>	<b>12,678</b>	<b>12,025</b>
Specific provision charged to statement of income	6,587	5,920	5,280	4,965
General provision charged to statement of income	427	427	223	215
<b>Total provision expense for possible credit losses</b>	<b>7,014</b>	<b>6,347</b>	<b>5,503</b>	<b>5,180</b>
Release of previously established specific provision	(1,030)	(563)	(2,425)	(2,374)
Release of previously established general provision	(64)	(64)	(348)	(333)
<b>Total release of previously established provision</b>	<b>(1,094)</b>	<b>(627)</b>	<b>(2,773)</b>	<b>(2,707)</b>
<b>Provision charged to the statement of income, net</b>	<b>5,920</b>	<b>5,720</b>	<b>2,730</b>	<b>2,473</b>
Change of specific provision due to write-offs, net	(248)	(505)	(1,912)	(1,485)
Increase/(decrease) in specific provision due to currency fluctuations	(84)	(265)	167	165
Specific provision at the end of the year	16,659	15,590	11,448	11,003
General provision at the end of the year	2,592	2,538	2,215	2,175
<b>Provision for possible credit losses at the end of the year</b>	<b>19,251</b>	<b>18,128</b>	<b>13,663</b>	<b>13,178</b>

The following general provision rates have been adopted by the Management in respect of the Bank's and Group's non-risk free assets as at 31 December 2002 and 2001:

Due from credit institutions	1.00%
Loans and advances to non-banking customers	1.00%

## 10 PROVISION EXPENSE FOR POSSIBLE CREDIT LOSSES AND RELEASE OF PREVIOUSLY ESTABLISHED PROVISION

The above general provision has not been applied to balances due from credit institutions registered in the OECD countries and interbank balances secured by Latvian government fixed income securities or deposits placed with the Group, as well as short-term money market balances.

The above general provision has not been applied to loans and advances to municipalities and companies owned by municipalities, as well as loans and advances to related parties.

The following table provides a specification of the provision for possible credit losses between the respective assets and issued guarantees:

LVL 000's	31/12/2002				31/12/2001			
	Group		Bank		Group		Bank	
	Specific provision	General provision	Specific provision	General provision	Specific provision	General provision	Specific provision	General provision
Balances due from credit institutions	2,222	102	2,222	102	2,395	166	2,395	166
Loans and advances to non-banking customers	10,779	2,469	9,711	2,415	7,256	2,028	6,821	1,988
Treasury bills and other fixed income securities	2,466	–	2,466	–	944	–	944	–
Accrued interest income	1,126	–	1,125	–	830	–	830	–
Other assets	66	–	66	–	23	–	13	–
Guarantees	–	21	–	21	–	21	–	21
	<b>16,659</b>	<b>2,592</b>	<b>15,590</b>	<b>2,538</b>	<b>11,448</b>	<b>2,215</b>	<b>11,003</b>	<b>2,175</b>

## 11 TAXATION

According to Latvian tax legislation relating to foreign investment, the Bank was eligible for a 50% tax holiday for five years starting from 1 January 1997, and was accordingly subject to 12.5% corporate income tax on taxable income until 31 December 2001. The year ended 31 December 2001 was the last taxation year when the tax holiday was applied.

Corporate income tax expense comprises the following items:

LVL 000's	2002		2001	
	Group	Bank	Group	Bank
Provision for corporate income tax for the year	1,981	1,950	1,379	1,365
Increase in deferred corporate income tax	289	290	297	273
Prior year adjustment	–	–	(105)	(105)
<b>Total corporate income tax expense</b>	<b>2,270</b>	<b>2,240</b>	<b>1,571</b>	<b>1,533</b>

The change in deferred corporate income tax mainly relates to the excess of tax depreciation over accounting depreciation and changes in the applied corporate income tax rate.

# TAXATION 11

The reconciliation of the Bank's pre-tax profit for the year to the provision for corporate income tax for the year may be specified as follows:

LVL 000's	2002	2001
	Bank	Bank
Profit before corporate income tax	11,545	13,285
(Excess) of tax depreciation over accounting depreciation	(852)	(1,817)
Non-deductible expense and (non-taxable income), net	(34)	2,063
<b>Taxable profit for the year</b>	<b>10,659</b>	<b>13,531</b>
Corporate income tax (at standard rate 2002: 22%, 2001: 25%)	2,345	3,383
Tax reducers (donations)	(395)	(653)
50% tax holiday	-	(1,365)
<b>Provision for corporate income tax for the year</b>	<b>1,950</b>	<b>1,365</b>

The accumulated temporary taxation differences can be specified as follows:

LVL 000's	2002	2001
	Bank	Bank
Accumulated excess of tax depreciation over accounting depreciation	7,356	6,123
General provisions for possible credit losses	(2,538)	(2,175)
Vacation reserve	(527)	(436)
<b>Total temporary differences subject to deferred tax</b>	<b>4,291</b>	<b>3,512</b>
<b>Total provision for deferred corporate income tax</b>	<b>729</b>	<b>439</b>

The movements in tax accounts of the Bank during 2002 can be specified as follows:

LVL 000's	Balance as at 31/12/2001	Calculated in 2002	Paid in 2002	Balance as at 31/12/2002
Corporate income tax	281	(1,950)	2,928	1,259
Social security contributions	-	(3,146)	3,146	-
Personal income tax	3	(2,139)	2,139	3
VAT	(11)	(367)	361	(17)
Real estate tax	16	(109)	100	7
<b>Total tax receivable/(payable)</b>	<b>289</b>	<b>(7,711)</b>	<b>8,674</b>	<b>1,252</b>

## 12 CASH AND DEPOSITS WITH THE BANK OF LATVIA

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Cash	23,726	21,970	28,085	26,787
Deposits with the Bank of Latvia	18,355	18,355	5,598	5,598
<b>Total cash and deposits with the Bank of Latvia</b>	<b>42,081</b>	<b>40,325</b>	<b>33,683</b>	<b>32,385</b>

Deposits with the Bank of Latvia are due on demand and are non-interest bearing.

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted deposits. This compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia plus average monthly cash balance in LVL. In 2002, the average monthly cash balance in LVL might comprise up to 30% (2001: 40%).

During the reporting year, the Bank was in compliance with these requirements of the Bank of Latvia.

## 13 BALANCES DUE FROM CREDIT INSTITUTIONS

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Due from credit institutions registered in OECD countries	112,648	110,925	42,263	41,648
Due from credit institutions registered in Latvia	19,974	19,874	19,411	19,411
Due from credit institutions registered in other non-OECD countries	28,624	47,769	11,863	11,285
<b>Total gross balances due from credit institutions</b>	<b>161,246</b>	<b>178,568</b>	<b>73,537</b>	<b>72,344</b>
Less provision for possible credit losses (see Note 10)	(2,324)	(2,324)	(2,561)	(2,561)
<b>Total net balances due from credit institutions</b>	<b>158,922</b>	<b>176,244</b>	<b>70,976</b>	<b>69,783</b>

As at 31 December 2002, the Bank had established correspondent relationships with 41 (35) credit institutions registered in the OECD countries, 6 (6) Latvian credit institutions and 41 (50) credit institutions incorporated in other non-OECD countries.

The Bank's balances with its subsidiary *Parex Bank* (Lithuania) accounted for 62% (50%) of the total balances due from credit institutions registered in other non-OECD countries.

**BALANCES DUE FROM CREDIT INSTITUTIONS 13**

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Correspondent accounts	51,423	44,216	29,190	25,878
Overnight deposits	4,640	10,982	13,184	15,070
Total demand deposits	56,063	55,198	42,374	40,948
<b>Term deposits with credit institutions:</b>				
due within 1 month	92,703	100,639	27,021	27,447
due within 1–3 months	2,969	5,995	–	–
due within 3–6 months	6,122	12,022	886	860
due within 6–12 months	–	–	64	–
due within 1–5 years	–	64	–	–
over 5 years and undated	3,389	4,650	3,192	3,089
Total term deposits	105,183	123,370	31,163	31,396
<b>Total gross balances due from credit institutions</b>	<b>161,246</b>	<b>178,568</b>	<b>73,537</b>	<b>72,344</b>
Less provision for possible credit losses (see Note 10)	(2,324)	(2,324)	(2,561)	(2,561)
<b>Total net balances due from credit institutions</b>	<b>158,922</b>	<b>176,244</b>	<b>70,976</b>	<b>69,783</b>

Term deposits serving as cash collateral have been classified as “over 5 years and undated”.

As at 31 December 2002, the Bank had inter-bank deposits with 2 Latvian credit institutions and 5 OECD region credit institutions. Corresponding balances comprised 70% and 79% of total balances due from credit institutions registered in Latvia and OECD, respectively.

**LOANS AND ADVANCES TO NON-BANKING CUSTOMERS 14**

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Regular loans	202,661	183,931	131,185	124,396
Loans under reverse repurchase agreements	5,867	4,840	5,036	4,815
Utilised credit lines	58,351	58,351	55,757	55,757
<b>Total gross loans to non-banking customers</b>	<b>266,879</b>	<b>247,122</b>	<b>191,978</b>	<b>184,968</b>
Finance leases	66,501	61,019	67,636	62,467
Overdraft facilities	34,702	34,703	15,983	15,983
Debit balances on payment cards	4,227	4,227	4,234	4,234
<b>Total other loans and advances</b>	<b>38,929</b>	<b>38,930</b>	<b>20,217</b>	<b>20,217</b>
<b>Total gross loans and advances to non-banking customers</b>	<b>372,309</b>	<b>347,071</b>	<b>279,831</b>	<b>267,652</b>
Less provision for possible credit losses (see Note 10)	(13,248)	(12,126)	(9,284)	(8,809)
<b>Total net loans and advances to non-banking customers</b>	<b>359,061</b>	<b>334,945</b>	<b>270,547</b>	<b>258,843</b>

As at 31 December 2002, regular loans include balances due from investment and brokerage companies, which, by substance, represent the Bank's funds placed with the above companies to secure trading with financial instruments. As at 31 December 2002 such loans amounted to LVL 6,141 thousand (2001: LVL 2,214 thousand).

As at 31 December 2002, the outstanding balance of regular loans includes also LVL 2,451 thousand (2001: LVL 1,307 thousand) due from the Bank's subsidiary acting as the Bank's broker for trading investments in shares of various enti-



## 14 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

ties registered in CIS countries. As such, the balance due from the aforementioned subsidiary represents the Bank's investments in shares, however, in accordance with a specific FCMC request, it has been classified as a loan.

Loans and advances to non-banking customers include financing granted to small and medium size Latvian entities from the funds provided by the World Bank specifically for this purpose (see Note 26).

As at 31 December 2002, the Bank has also issued student loans in the total amount of LVL 4,733 thousand (2001: LVL 4,157 thousand). Student loans are issued under the initiative of the Ministry of Education of the Republic of Latvia and the State Treasury. The State Treasury has arranged the necessary funding and fully assumes all risks and rewards incident to these loans. Since the Bank only acts as an agent on behalf of the Ministry of Education and the State Treasury, the outstanding balances of the aforementioned loans and the corresponding deposits are not included in the Bank's balance sheet.

As at 31 December 2002, loans and advances totalling LVL 29,873 thousand (2001: LVL 19,693 thousand) or 9% (2001: 8%) of the Bank's total portfolio of net loans and advances to non-banking customers were classified as zero risk, as collateralised by deposits (see Notes 25 and 26).

The Latvian banking legislation requires that any credit exposure to a non-related entity may not exceed 25% of equity as defined by FCMC (see Note 33) and the total credit exposure to all related parties, except for consolidated subsidiaries, may not exceed 15% of equity as defined by FCMC. As at 31 December 2002, the Bank was in compliance with the above requirements.

The table below provides a breakdown of outstanding loans and advances to non-banking customers by maturity profile.

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Overdue	11,188	10,909	7,601	7,474
<b>Falling due within:</b>				
1 month	60,954	55,961	35,725	33,264
1-3 months	7,496	6,291	11,686	10,117
3-6 months	11,957	9,128	14,904	12,504
6-12 months	23,914	19,039	26,589	26,001
1-5 years	105,093	98,679	96,570	92,636
more than 5 years	151,707	147,064	86,756	85,656
<b>Total gross loans and advances to non-banking customers</b>	<b>372,309</b>	<b>347,071</b>	<b>279,831</b>	<b>267,652</b>
Less provision for possible credit losses (see Note 10)	(13,248)	(12,126)	(9,284)	(8,809)
<b>Total net loans and advances to non-banking customers</b>	<b>359,061</b>	<b>334,945</b>	<b>270,547</b>	<b>258,843</b>

Currently, the Bank's information system does not provide an analysis of outstanding loans and advances to non-banking customers by their remaining maturities considering the scheduled repayments during the period of loans. Due to extensive effort required in preparation of such an analysis, the Management did not deem presentation of such analysis in these financial statements practical. Accordingly, the above table has been prepared under the assumption that all principal falls due at the final maturity date.

As at year end, the interest accrual profile of loans and advances to non-banking customers was as follows:

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Accrual basis	361,983	337,213	273,333	261,539
Non-accrual basis	10,326	9,858	6,498	6,113
<b>Total gross loans and advances to non-banking customers</b>	<b>372,309</b>	<b>347,071</b>	<b>279,831</b>	<b>267,652</b>
Less provision for possible credit losses (see Note 10)	(13,248)	(12,126)	(9,284)	(8,809)
<b>Total net loans and advances to non-banking customers</b>	<b>359,061</b>	<b>334,945</b>	<b>270,547</b>	<b>258,843</b>



# LOANS AND ADVANCES TO NON-BANKING CUSTOMERS 14

Loans and advances by customer profile may be specified as follows:

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Government	49	49	236	236
Local municipalities	2,076	1,901	14,932	14,347
State owned enterprises	17,213	11,827	8,910	6,770
Municipal enterprises	38,966	38,893	13,880	10,669
Privately held companies	229,640	216,089	193,148	190,980
<b>Total gross loans and advances to corporate customers</b>	<b>287,944</b>	<b>268,759</b>	<b>231,106</b>	<b>223,002</b>
Public and religious institutions	8,610	8,610	37	37
Personnel employed by the Bank	2,617	2,617	1,295	1,295
Other private individuals	73,138	67,085	47,393	43,318
<b>Total gross loans and advances to non-banking customers</b>	<b>372,309</b>	<b>347,071</b>	<b>279,831</b>	<b>267,652</b>
Less provision for possible credit losses (see Note 10)	(13,248)	(12,126)	(9,284)	(8,809)
<b>Total net loans and advances to non-banking customers</b>	<b>359,061</b>	<b>334,945</b>	<b>270,547</b>	<b>258,843</b>

An industry analysis of the gross portfolio of loans and advances to corporate customers before provision for possible credit losses may be specified as follows:

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Transport and communications	87,298	81,207	56,682	50,951
Trade	63,487	56,340	49,603	45,760
Electricity, gas and water supply	33,772	32,175	11,382	10,822
Manufacturing	25,170	23,331	34,995	33,773
Financial intermediation	20,575	27,543	19,125	26,297
Construction	10,090	9,175	9,843	9,541
Hotels and restaurants	6,041	5,853	22,622	22,555
Fishing	2,261	2,261	2,493	2,478
Agriculture and forestry	1,758	1,552	1,511	1,470
Other industries	37,492	29,322	22,850	19,355
<b>Total gross loans and advances to corporate customers</b>	<b>287,944</b>	<b>268,759</b>	<b>231,106</b>	<b>223,002</b>

The following table represents a geographical profile of the portfolio of loans and advances to non-banking customers analysed by the place of customers' reported residence:

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
OECD region residents	53,311	52,663	41,932	41,548
Latvian residents	263,621	268,588	197,640	198,060
Non-OECD region residents	55,377	25,820	40,259	28,044
<b>Total gross loans and advances to non-banking customers</b>	<b>372,309</b>	<b>347,071</b>	<b>279,831</b>	<b>267,652</b>
Less provision for possible credit losses (see Note 10)	(13,248)	(12,126)	(9,284)	(8,809)
<b>Total net loans and advances to non-banking customers</b>	<b>359,061</b>	<b>334,945</b>	<b>270,547</b>	<b>258,843</b>

**15 FINANCE LEASES BY TYPE OF ASSETS**

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Transport vehicles	28,506	28,077	20,074	19,495
Real estate	17,188	15,326	21,398	21,398
Manufacturing equipment	4,390	3,959	5,032	4,550
Equity shares	1,482	1,460	4,743	4,743
Other	14,935	12,197	16,389	12,281
<b>Total gross finance leases</b>	<b>66,501</b>	<b>61,019</b>	<b>67,636</b>	<b>62,467</b>

In the ordinary course of business, the Bank and its subsidiaries offer their customers the possibility to finance the acquisition of equity shares by means of finance lease agreements. As such, the Bank becomes the legal owner of those shares during the period of lease. Even though the Bank is the legal owner of the entities which are being leased, the Management believe that in substance the control over the respective entities is not transferred to the Bank, and therefore such entities should not be considered as related entities to the Bank.

**16 UNEARNED INTEREST INCOME ON FINANCE LEASES**

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Short-term unearned income	2,703	2,283	4,613	4,079
Long-term unearned income	6,237	6,048	7,971	7,402
<b>Total unearned interest income on finance leases</b>	<b>8,940</b>	<b>8,331</b>	<b>12,584</b>	<b>11,481</b>

**17 TREASURY BILLS AND OTHER FIXED INCOME SECURITIES**

LVL 000's	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
State Treasury bills	4,007	4,007	100	100
Government bonds	89,304	79,635	55,465	51,340
Municipality bonds	3,306	3,288	1,112	1,112
Credit institution bonds	92,329	92,287	66,682	72,830
Corporate bonds	80,991	73,699	77,492	74,491
Other financial institution bonds	57,922	57,922	38,749	38,749
Managed funds	11,812	11,812	10,450	10,440
<b>Total gross treasury bills and other fixed income securities</b>	<b>339,671</b>	<b>322,650</b>	<b>250,050</b>	<b>249,062</b>
Less provision for fixed income securities (see Note 10)	(2,466)	(2,466)	(944)	(944)
<b>Total net treasury bills and other fixed income securities</b>	<b>337,205</b>	<b>320,184</b>	<b>249,106</b>	<b>248,118</b>

Managed funds represent the Group's share in certain portfolios of fixed income securities that are managed on behalf of investors by financial institutions registered in OECD countries. The Group does not possess detailed information on these investments, therefore they are not analysed by their ultimate issuer.

# TREASURY BILLS AND OTHER FIXED INCOME SECURITIES 17

The Group's investments in treasury bills and other fixed income securities are classified by listed and unlisted securities as follows:

LVL 000's	31/12/2002			31/12/2001		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Latvian State Treasury bills	4,007	–	4,007	100	–	100
<b>Government bonds:</b>						
Latvian government bonds	17,982	–	17,982	30,465	–	30,465
OECD government bonds	55,062	–	55,062	14,744	–	14,744
Non-OECD government bonds (excluding Latvia)	15,612	648	16,260	10,256	–	10,256
Total government bonds	88,656	648	89,304	55,465	–	55,465
<b>Municipality bonds:</b>						
Non-OECD (excluding Latvia)	3,299	7	3,306	1,099	13	1,112
Total municipality bonds	3,299	7	3,306	1,099	13	1,112
<b>Credit institution bonds:</b>						
Latvia	1,807	2,378	4,185	174	–	174
OECD	54,069	28,368	82,437	36,400	29,826	66,226
Non-OECD (excluding Latvia)	5,707	–	5,707	282	–	282
Total credit institution bonds	61,583	30,746	92,329	36,856	29,826	66,682
Corporate bonds (OECD and non-OECD)	79,167	1,824	80,991	50,318	27,174	77,492
Other financial institution bonds (OECD)	25,976	31,946	57,922	15,404	23,345	38,749
Managed funds	–	11,812	11,812	–	10,450	10,450
<b>Total gross treasury bills and other fixed income securities</b>	<b>262,688</b>	<b>76,983</b>	<b>339,671</b>	<b>159,242</b>	<b>90,808</b>	<b>250,050</b>
Less provision for fixed income securities (see Note 10)	(2,466)	–	(2,466)	(930)	(14)	(944)
<b>Total net treasury bills and other fixed income securities</b>	<b>260,222</b>	<b>76,983</b>	<b>337,205</b>	<b>158,312</b>	<b>90,794</b>	<b>249,106</b>

## 17 TREASURY BILLS AND OTHER FIXED INCOME SECURITIES

Treasury bills and other fixed income securities held by the Group as at 31 December 2002 are classified between held to maturity, available for sale and held for trading portfolio as follows:

LVL 000's	31/12/2002				31/12/2001			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
State Treasury bills	–	4,007	–	4,007	–	100	–	100
Government bonds	–	79,218	10,086	89,304	157	54,026	1,282	55,465
Municipality bonds	–	3,281	25	3,306	–	–	1,112	1,112
Credit institution bonds	13,238	79,049	42	92,329	–	66,612	70	66,682
Corporate bonds	1,064	56,465	23,462	80,991	1,129	70,139	6,224	77,492
Other financial institution bonds	7,022	41,553	9,347	57,922	5,352	33,397	–	38,749
Managed funds	–	–	11,812	11,812	–	–	10,450	10,450
<b>Total gross treasury bills and other fixed income securities</b>	<b>21,324</b>	<b>263,573</b>	<b>54,774</b>	<b>339,671</b>	<b>6,638</b>	<b>224,274</b>	<b>19,138</b>	<b>250,050</b>

As at 31 December 2002, government bonds with the carrying value of LVL 3,002 thousand (2001: LVL 3,001 thousand) have been pledged as a security for the Bank's repo loans due to the Bank of Latvia in the amount of LVL 3,000 thousand (2001: LVL 3,000 thousand).

## 18 TREASURY BILLS AND OTHER FIXED INCOME SECURITIES BY MATURITY PROFILE

The following table provides a maturity profile of the Group's treasury bills and other fixed income securities as at 31 December 2002:

LVL 000's	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	More than 5 years	Total portfolio
State Treasury bills	–	1,294	2,713	–	–	–	4,007
Government bonds	417	11,855	–	4,245	41,270	31,517	89,304
Municipality bonds	7	–	–	–	3,299	–	3,306
Credit institution bonds	320	3,393	1,009	996	42,893	43,718	92,329
Corporate bonds	–	1,489	–	699	35,057	43,746	80,991
Other financial institution bonds	2,970	1,245	1,470	–	25,528	26,709	57,922
Managed funds	153	–	–	–	2,796	8,863	11,812
<b>Total gross treasury bills and other fixed income securities</b>	<b>3,867</b>	<b>19,276</b>	<b>5,192</b>	<b>5,940</b>	<b>150,843</b>	<b>154,553</b>	<b>339,671</b>

# SHARES AND OTHER NON-FIXED INCOME SECURITIES 19

LVL 000's

	31/12/2002		31/12/2001	
	Group	Bank	Group	Bank
Latvian entities' equity shares	579	573	563	563
Foreign entities' equity shares	452	448	514	473
Managed funds	16,613	16,191	17,272	17,272
Latvian privatisation certificates	-	-	49	49
<b>Total shares and other non-fixed income securities</b>	<b>17,644</b>	<b>17,212</b>	<b>18,398</b>	<b>18,357</b>

The following table shows the division of the Group's investments in shares and other non-fixed income securities by listed and unlisted securities:

LVL 000's

	31/12/2002			31/12/2001		
	Listed	Unlisted	Total	Listed	Unlisted	Total
<b>Equity shares:</b>						
in Latvian financial institutions	-	25	25	-	25	25
in Latvian corporate entities	292	262	554	273	265	538
in OECD financial institutions	-	4	4	-	-	-
in OECD corporate entities	291	-	291	29	300	329
in other non-OECD credit institutions	-	-	-	6	-	6
in other non-OECD corporate entities	114	43	157	135	44	179
managed funds	-	16,613	16,613	-	17,272	17,272
Total equity shares	697	16,947	17,644	443	17,906	18,349
Latvian privatisation certificates	-	-	-	-	49	49
<b>Total shares and other non-fixed income securities</b>	<b>697</b>	<b>16,947</b>	<b>17,644</b>	<b>443</b>	<b>17,955</b>	<b>18,398</b>

Due to the fact that the Group does not possess a detailed enough specification of investments under managed funds, which are managed on behalf of investors by financial institutions registered in the OECD area, such investments are not analysed by their ultimate issuer.

The following table provides the division between shares and other non-fixed income securities of the Group available for sale and held for trading purposes:

LVL 000's

	31/12/2002			31/12/2001		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
<b>Equity shares:</b>						
in Latvian financial institutions	25	-	25	25	-	25
in Latvian corporate entities	-	554	554	-	538	538
in OECD corporate entities	16	279	295	12	317	329
in other non-OECD corporate entities	-	157	157	-	185	185
managed funds	31	16,582	16,613	-	17,272	17,272
Total equity shares	72	17,572	17,644	37	18,312	18,349
Latvian privatisation certificates	-	-	-	-	49	49
<b>Total shares and other non-fixed income securities</b>	<b>72</b>	<b>17,572</b>	<b>17,644</b>	<b>37</b>	<b>18,361</b>	<b>18,398</b>

## AUDITORS' REPORT



SIA Ernst & Young Baltic  
11. novembra krastmala 23  
Rīga LV 1050  
Latvia

Phone +371 7043801  
Fax +371 7043802

To the shareholders of *Parex Bank*

We have audited the accompanying consolidated financial statements of *Parex Bank* and its subsidiaries (hereinafter — the Group) and the accompanying financial statements of *Parex Bank* (hereinafter — the Bank) for the year ended 31 December 2002, set out on pages 35 through 78, which comprise the balance sheet, the statements of income, changes in shareholders' equity and cash flows, and the related notes. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group and the Bank as of 31 December 2002, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA  
License No. 17

A handwritten signature in black ink, appearing to read 'Neil Jennings'.

Neil Jennings  
Personal ID code: 240165-14652  
Member of the Board

A handwritten signature in black ink, appearing to read 'Gundars Ruža'.

Gundars Ruža  
Personal ID code: 310375-10517  
Latvian Sworn Auditor  
Certificate No. 137

Rīga,  
28 February 2003



<b>PAREX BANK BRANCHES</b>				
<b>Parex Bank head office</b> Smilšu iela 3, Rīga phone 7010000 SWIFT PARXLV 22 info@parex.lv www.parex.lv		Branch <b>Laimdota</b> Branch <b>Valdemārs</b> Branch <b>Citadele</b> Branch <b>Raiņa bulvāris</b> Branch <b>Roma</b> Branch	K. Barona iela 20/22 K. Valdemāra iela 8 K. Valdemāra iela 1b Raiņa bulvāris 1 Kaļķu iela 28 Brīvības iela 148	Rīga phone 7010050 Rīga phone 7778510 Rīga phone 7010040 Rīga phone 7778505 Rīga phone 7212254 Rīga phone 7364600
A. Bleziņa iela 1 A. Čaka iela 22 A. Dombrovska iela 30 Airport <b>Rīga</b> Airport <b>Rīga</b> , custom Audēju iela 15 Audēju iela 16 Āzenes iela 5 Balasta dambis 3 Bāriņu iela 10 Bauskas iela 86 Brīvības gatve 312 Brīvības gatve 409 Brīvības iela 90	Daugavgrīvas iela 67 Deglava iela 67 Dzelzavas iela 120 Dzirciema iela 27 Elizabetes iela 101 Ezera iela 22 Gaiziņa iela 4 Gaujas iela 17 Hipokrāta iela 7 Jūrmalas iela 85 K. Ulmaņa gatve 144 K. Valdemāra iela 147 Kleistu iela 5 Klijānu iela 4	Kokneses prospekts 18 Krasta iela 46 Kurzemes prospekts 132 Lidoņu iela 27 Lomonosova iela 1 Maskavas iela 250 Maskavas iela 264 Maskavas iela 357 Maskavas iela 427a Melnsila iela 19 Merķeļa iela 21 Murjāņu iela 44 Nīcgales iela 2 Ozolciema iela 10/1	Purvciema iela 35 Pulkveža Brieža iela 12 Saharova iela 21 Slāvu iela 7 Stabu iela 89 Stacijas laukums 2 Stopiņu iela 22 Stūrmaņu iela 29 Tilta iela 3 Valdeķu iela 10 Valdeķu iela 52 Viskāju iela 27 Zaķusalas krastmala 3 Zolitūdes iela 34	
<b>Balvi</b> <b>Brīvības iela 58</b> phone 4507102 <b>Bauska</b> <b>Slimnīcas iela 9</b> phone 3960189 Grenctāle Border Checkpoint <b>Cēsis</b> <b>Raunas iela 13</b> phone 4107753 <b>Daugavpils</b> <b>Rīgas iela 34</b> phone 5407180 Sakņu iela 3 Valkas iela 3 Vajņu iela 27 Višķu iela 17 <b>Gulbene</b> <b>O. Kalpaka iela 62</b> phone 4471001 <b>Jelgava</b> <b>Raiņa iela 16</b> phone 3007516 Raiņa iela 28 Pērnavas iela 41 Uzvaras iela 13 Meitene Border Checkpoint <b>Jēkabpils</b> <b>Draudzības aleja 9</b> phone 5281923 <b>Jūrmala</b> Jomas iela 30 Jomas iela 65/67 Nometņu iela 7/9 Meža prospekts 36		<b>Krāslava</b> <b>Brīvības iela 15</b> phone 5681118 <b>Liepāja</b> <b>Kūrmājas prosp. 11</b> phone 3407191 Radio iela 16 Liepāja Free Port Wharf 46 <b>Limbazi</b> <b>Rīgas iela 16</b> phone 4070245 <b>Ludza</b> <b>Latgales iela 103</b> phone 5707027 <b>Ogre</b> <b>Mālkalnes prospekts 1</b> phone 5071338 <b>Rēzekne</b> <b>Latgales iela 20</b> phone 4607052 Jupatovkas iela 11 Latgales iela 71 <b>Salacgrīva</b> <b>Ostas iela 1</b> phone 4071152 Ainaži Border Checkpoint <b>Talsi</b> <b>Lielā iela 4</b> phone 3281645 <b>Tukums</b> <b>Pils iela 22</b> phone 3107078 <b>Valmiera</b> <b>Diakonāta iela 6</b> phone 4207186 <b>Ventspils</b> <b>Pils iela 17</b> phone 3607410 Plostu iela 7 Jūras iela 9		
<b>PAREKSS GROUP COMPANIES</b>				
<b>Parex Open Pension Fund</b> <b>Parex Brokerage System</b> <b>Parex Asset Management</b> <b>Parex Investment Society</b> <b>Parex Leasing (Latvia)</b> <b>Parex Leasing (Lithuania)</b> <b>Parex Bank (Lithuania)</b> <b>Parex Insurance Company</b> <b>Baltic Polls</b> <b>Parex Kredit</b> <b>Parex Group Representation Limited</b>	K. Barona iela 20/22 Citadeles iela 2, 314 kab. Smilšu iela 3 Smilšu iela 3 Smilšu iela 5 Ukmergēs g. 12 K. Kalinausko 13 K. Barona iela 20/22 Šermukšņiņi 1/13-2 Roosikrantsi 2 Berkeley Square House, Berkeley Square	Rīga Rīga Rīga Rīga Rīga Vilnius Vilnius Rīga Vilnius Tallinn London	phone 371 7010754 phone 371 7326455 phone 371 7010810 phone 371 7010810 phone 371 7010890 phone 370 2753887 phone 370 2664600 phone 371 7010090 phone 370 2614463 phone 372 6110245 phone 44 207 3965581	
<b>REPRESENTATIVES OFFICES</b>				
<b>Germany</b> Frankfurt/Main <b>Sweden</b> Stockholm <b>Estonia</b> Tallinn <b>Russia</b> Moscow St. Petersburg <b>Ukraine</b> Kiev Dnepropetrovsk <b>Belarus</b> Minsk <b>Moldova</b> Chisinau <b>Kazakhstan</b> Almaty <b>Azerbaijan</b> Baku	Linnegatan 7, 1TR Roosikrantsi 2 Sadovaya - Kudrinskaja 20-201 Artillerijskaya 1-342 Streleckaya 16-41 Mechnikova 3-1 F. Skorini 58 Mitropolita Banulesku Bodoni 57/1-216 Republic 15-524 Behbudova 18-9		phone 49 06174 63615 phone 46 854 567331 phone 372 6110243 phone 7 095 7377340 phone 7 812 3242323 phone 38 044 2446715 phone 38 056 2320166 phone 375 17 2020960 phone 373 2233856 phone 7 327 2639872 phone 99 412 980838	

**EXHIBIT “C”**





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## Bank Overview

- [Executive Team](#)
- [Financials](#)
- [Presentations](#)
- [International Recognition](#)
- [Correspondent Banks](#)
- [Locations](#)
- [Shareholders Structure](#)
- [Products & Services](#)
- [Internet Banking](#)
- [Market Research](#)
- [Financial News](#)
- [Parex Group](#)



## Correspondent Banks

CUR	CORRESPONDENT BANK	ACCOUNT NR	SWIF
<b>AUD</b>	AUSTRALIA <b>COMMONWEALTH BANK OF AUSTRALIA,</b> SYDNEY	100-146701-AUD-1126-01	CTB/
<b>CAD</b>	CANADA <b>ROYAL BANK OF CANADA,</b> TORONTO	09591-240-122-2	ROY
<b>CHF</b>	SWITZERLAND <b>UBS AG,</b> ZURICH	CH04 0023 0230 0691 5905 L	UBS'
<b>CZK</b>	CZECH REP <b>KOMERCNI BANKA,</b> PRAGUE	196250060257	KOM
<b>CYP</b>	CYPRUS <b>CYPRUS POPULAR BANK,</b> NICOSIA	189-21-001253	LIKIC
<b>DKK</b>	DENMARK <b>DEN DANSKE BANK AS,</b> COPENHAGEN	3996074749	DAB/
<b>EEK</b>	ESTONIA <b>HANSA-BANK,</b> TALLINN	227011081888	HAB/
<b>EUR</b>	GERMANY <b>DEUTSCHE BANK,</b> FRANKFURT	9473380 10	DEU'
	GERMANY <b>COMMERZBANK,</b> FRANKFURT	400886772301 EUR	COB.
	AUSTRIA <b>RZB BANK,</b> VIENNA	000-55.023.899	RZB/
	FINLAND <b>SVENSKA HANDELSBANKEN,</b> HELSINKI	313130-5910294	HANI
	FRANCE <b>CREDYT LYONNAIS,</b> PARIS	09100122053Y	CRL'
	ITALY <b>BANCA NAZIONALE DEL LAVORO,</b> ROME	265208	BNLI
	NETHERLANDS <b>ING BANK,</b> AMSTERDAM	50915134	INGE
	SPAIN <b>BANCO POPULAR ESPANOL,</b> MADRID	6859-50311-4	POP'
<b>GBP</b>	UK <b>LLOYD'S TSB BANK</b> LONDON	01021533	LOYI SC 3
<b>HKD</b>	GERMANY <b>DEUTSCHE BANK,</b>	100 9473380	DEU'

	FRANKFURT		
<b>HUF</b>	HUNGARY <b>HVB HUNGARY RT,</b> BUDAPEST	10978001	BAC:
<b>ISK</b>	ICELAND <b>LANDSBANKI ISLANDS,</b> REYKJAVIK	010027091703	LAIS
<b>JPY</b>	JAPAN <b>MIZUHO CORPORATE BANK,</b> TOYKO	6397010	MHC
<b>LTL</b>	LITHUANIA <b>PAREX BANKAS,</b> VILNIUS	83001 code: 260101390	INDL
<b>MTL</b>	MALTA <b>BANK OF VALLETTA,</b> VALETTA	40011308010	VALL
<b>NOK</b>	NORWAY <b>SVENSKA HANDELSBANKEN,</b> OSLO	8396.02.03146	HANI
<b>NZD</b>	NEW ZELAND <b>BANK OF NEW ZEALAND,</b> WELLINGTON	222228-0000	BKN:
<b>PLN</b>	POLAND <b>BANK HANDLOWY W WARSZAWIE,</b> WARSZAWA	71044005	CITIF
<b>SEK</b>	SWEDEN <b>NORDEA BANK SWEDEN AB,</b> STOCKHOLM	39527701198SEK	NDE:
<b>SGD</b>	SINGAPORE <b>SVENSKA HANDELSBANKEN,</b> SINGAPORE	101202	HANI
<b>TRL</b>	TURKEY <b>YAPI VE KREDI BANKASI AS,</b> ISTANBUL	671308060032034	YAPI
<b>USD</b>	USA <b>DEUTSCHE BANK TRUST COMPANY</b> <b>AMERICAS,</b> NEW YORK	04-407-692	BKTF FW C
	USA <b>JP MORGAN CHASE BANK,</b> NEW YORK	400807572	CHA:
	USA <b>HARRIS BANK INTERNATIONAL,</b> NEW YORK	000020029869	HA T
<b>ZAR</b>	SWITZERLAND <b>UBS AG,</b> ZURICH	230-69159.71X (ZAR)	UBS'

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